

The macroeconomic forecasts

The macroeconomic inputs to our property forecasts are provided by a combination of statistics published by the Bureau for Economic Research (BER) at the University of Stellenbosch and our own survey of South Africa's top economists. The following tables provide a snapshot view of the forecasts for a number of crucial economic variables as at April 2003, in the case of the BER's forecast, and May 2003, in the case of the panel of economists. All these forecasts were thus made before Statistics South Africa's downward revision in consumer inflation from January 2002. Still, the impact of the revision on the economists' forecast, and consequently on the property forecasts, is expected to be negligible.

In order to understand the basis of the forecast in the first table, readers are advised to contact the BER directly (see details in the Foreword).

Biannually we conduct a survey amongst South Africa's top economists to establish the average forecast of some crucial macroeconomic variables over the next five years. This semester, ten economists contributed to our survey. The results of this

survey are summarised in the second table.

The first two tables indicate that in some instances there are subtle differences between the forecasts of the BER and those of our survey of economists, whilst in other cases the differences are more significant. Furthermore, it must be noted that the forecast data received from our panel of economists, and not that of the BER, was used as the basis in determining the forecast values in our econometric model.

Both the BER and our panel of economists' expect GDP to slow down in 2003 compared to 2002. Signs of the slowdown in economic growth were already noticed in GDP data for the first quarter of 2003, which came in at 1,5% annualised compared to 2,4% in the fourth quarter of 2002. Postulated reasons for the expected slowdown are the lagged effect of last year's gradual increase in interest rates on consumer expenditure, an increase in import competition due to the stronger rand, which will put pressure on local manufacturing, and, conversantly, the adverse impact the stronger rand will have on export

BER's macroeconomic forecast

Forecast date: April 2003

	Annual % change						
	2002	2003	2004	2005	2006	2007	2008
Real GDP	3,0	2,6	3,5	3,7	2,9	3,5	3,6
Real PCE	3,1	3,1	3,9	3,6	2,5	3,2	3,6
CPI (average)	*9,3	7,8	3,2	5,7	3,0	4,7	5,8
Nominal prime overdraft rate	15,8	16,0	13,3	14,7	12,8	12,5	13,5
Real prime overdraft rate	6,5	8,2	10,1	9,0	9,8	7,8	7,7
LT bond rate (R153)	11,7	10,0	9,6	10,9	9,9	10,2	10,4

* CPI data for 2002 reflects the downward adjustment of figures announced by Stats SA in June 2003

Rode survey of macroeconomic forecasts

Forecast date: May 2003 (N = 10)

	2003	2004	2005	2006	2007	2008
Real GDP (% change)	2,3	3,0	3,3	2,9	3,5	3,2
CPI (average) (% change)	8,4	4,6	5,1	5,3	5,0	5,0
Current GDE (% change)	9,9	8,4	8,2	7,5	8,1	8,1
Real GDE (% change)	3,2	3,6	3,6	3,1	3,7	3,5
Real PCE (% change)	2,7	3,2	3,3	3,0	3,5	3,3
10-year bonds (average) (%)	9,8	9,3	9,8	9,5	9,0	9,1
Nominal prime overdraft rate (average) (%)	15,8	13,5	13,1	13,0	13,1	13,2
Real prime overdraft rate (average) (%)	7,4	8,9	8,0	7,7	8,1	8,2
Real retail sales: durable goods (% change)	2,2	4,6	4,7	4,1	4,7	4,7
Real retail sales: non-durable goods (% change)	1,9	2,5	2,5	2,5	2,7	2,5
Real retail sales: semi-durable goods (% change)	4,6	4,7	4,2	3,9	4,3	4,5

Rode survey of macroeconomic forecasts

Forecast date: May 2003 (N = 10)

	2003	2004	2005	2006	2007	2008
	Standard deviation of annual % change					
Real GDP	0.4	0.3	0.5	0.5	0.4	0.8
CPI (average) includes VAT	0.5	1.4	0.9	0.8	1.1	0.8
Current GDE	2.0	1.5	2.4	0.7	1.2	2.6
Real GDE	0.4	0.4	0.9	0.4	0.2	1.0
Real PCE	0.4	0.5	0.3	0.4	0.3	0.7
10-year bonds (average)	0.4	1.0	1.3	1.1	1.2	1.2
Prime overdraft rate (average)	0.7	0.9	1.7	2.0	1.8	2.1
Real retail sales: durable goods	0.2	1.1	1.9	1.6	0.7	1.5
Real retail sales: non-durable goods	0.7	0.5	0.6	0.9	0.8	1.1
Real retail sales: semi-durable goods	1.3	1.1	1.0	0.6	0.7	0.9

activity. Furthermore, pressure on the domestic economy is also expected to come from weakened conditions in the global economy. Still, economic growth is set to gain momentum again from quarter 2003:2, stimulated by June 2003's 1,5% point drop in interest rates, with further cuts expected later this year.

However, the BER and panel of economists expect economic growth to pick-up again from 2004 onwards, with average real GDP of 3,4% p.a. and 3,2% p.a. expected respectively from 2004-2008. Amongst others, the boost for economic growth is set to come from lower forecast interest rates on the back of lower inflation, further income tax cuts, increased government spending

and an upturn in the performance of the global economy.

With regard to the consumer price index, the BER expects an average growth rate of 5% p.a. over the length of the forecast period, compared to the panel of economists' prediction of 5,6% p.a. This lower inflation environment will, of course, create room for the further gradual easing of interest rates up to around 2006/2007, followed again by a steady upping of rates in response to growing demand pressures in the economy.

Good news for the broader economy is that real interest rates are predicted to come in under 10% for the forecast period, after slowly edging lower from 1999. The average in the real prime overdraft rate from 1997-2002 was 10,2%, whilst 8,1% is forecast for 2003-2008. This, of course, bodes well for luring desperately needed fixed investment to the country and achieving sustainable high economic growth.

However, readers must take cognisance of the increase in the volatility of the rand exchange rate, especially against the US dollar. This does not only imply higher risks for importers, exporters and investors, but also complicates economists' task in forecasting the macroeconomic variables.

The macroeconomic forecasts were done before Statistics South Africa's recent revision of consumer inflation data from January 2002. However, the impact of this on the macroeconomic forecasts is expected to be minimal, if indeed any impact is noticed. The only exception is possibly the average CPI forecast for 2003.

It is important that readers familiarise themselves with the macroeconomic forecasts, as they form the basis of all the property-related forecasts generated by our econometric model. This concludes our look at macroeconomic forecasts for the period 2003-2008. ■